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TAGS: PGOV KDEM ECON HU

SUBJECT: CONTINUOUS LOOP: HUNGARY TWO YEARS AFTER "THE SPEECH"

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI

First Hungarian: How are you?

Second Hungarian: Well.

First Hungarian: Could you elaborate?

Second Hungarian: Not well.

THE SPEECH IN THE ECHO CHAMBER

¶1. (C) This old joke remains unfortunately topical. Two years after the public disclosure of Prime Minister Gyurcsany's notorious "lies" speech, the political debate remains heated in tone but largely frozen in time. The lingering specter of the speech remains, as do lasting public suspicions regarding the Prime Minister.

¶2. (C) Neither is likely to dissipate. Gyurcsany's flagship reforms in education and health care have been rolled back, and even his success in deficit reduction has been undermined by a weak economy and an excessive reliance on revenue enhancement rather than fiscal discipline. To the derision of its opponents and often to the frustration of its ambitious supporters, the government does continue to generate plans. (They are, as one contact quips, one of the few growth industries in Hungary.) Whether good or bad, these initiatives have proven largely irrelevant, often slow-rolled by a resistant bureaucracy and soon rolled over by the next wave of ideas.

STILL STANDING (BUT STANDING STILL

¶3. (C) Yet Gyurcsany continues to survive. "Ferenc is a fighter," sums up long-time friend Klara Akots, and he has been able to weather a series of crises by marshaling support from a party that still sees him as the best option in the face of its long-time opponents in FIDESZ (and its recent coalition allies in the SzDSz.

¶4. (C) Without a governing majority in Parliament, however, Gyurcsany may be unable to do more than survive. The government's recent tax package (which analysts pointedly refuse to call "tax reform") is emblematic of the government's modus operandi. Conceived in secret, announced in the media, and criticized from all sides for its unrealistic assumptions and its unreasonable burden on the corporate sector, the plan now joins many others on the rocks in Parliament. Indeed, some AmCham officials believe the PM may have "lost control of his own party," suggesting that more hard-line elements in the Socialist party may be letting Gyurcsany reign but not rule.

ALL FOR NOTHING; NOTHING FOR ALL

¶5. (C) Although the government cannot execute its plans, the opposition has been unable to expel the Prime Minister.

While Gyurcsany remains the principal target of public frustration (posters proclaiming "It's All Gyurcsany's Fault" dot the city), he is not the only target. MDF Faction Leader Herenyi has railed against both "our clumsy government and our clumsy opposition," and FIDESZ Party President Orban admits that the opposition's "failure" to remove the PM has put them in the firing line as well. The far-right press, for instance, has dramatically increased its criticism of FIDESZ in the past months. Disturbingly, much of the criticism accuses FIDESZ of being "too moderate" and "too pro-American."

16. (C) As the parties remain in what MDF Party President Ibolya David ridicules as "the political sandbox," extremist elements remain visible as well as vocal. Groups ranging from the "Goy Riders" Motorcycle Club to the irredentist "64 Counties Movement" have organized often-overlapping protests since Parliament's return on September 15, including a major demonstration on September 20 which ended in clashes with the police in downtown Budapest (septel). Centrist political analyst Krisztian Szabados believes that the inroads made by the far right in the past year represent the greatest threat to Hungary, and believes that the current trend could lead to open confrontation between extremists and the Roma community.

One contact recently arrived in the capital from eastern Hungary expected to find "more diversity and more tolerance" in Budapest but believes the situation is bad (and getting worse.

COMMENT: SHARPENING A DULL KNIFE?

17. (C) Hungary is balanced on the edge of a dull knife.

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Although the issues confronting the country are strategic, the debate and the decisions remain primarily tactical as the parties jockey for advantage. With consensus an inch wide and an inch deep, many Hungarians are tempted to believe the hyperbole that their country is not only "ungoverned" but ungovernable. As former SzDSZ President Janos Koka stated in frustration, "let's face it: we do not agree, we will not agree, we cannot agree." With consensus neither in the streets nor the corridors of power, the atmosphere is at once tense and tedious.

18. (C) And the opportunity costs are mounting. Investors are increasingly concerned about the future of the economy but the government has been reduced to "modest" (read "minute") actions on the margins of the major issues of the day. One corporate rep warns that "thousands of negative decisions are being made about Hungary every day," and one resident Ambassador concludes that "the parties can agree for five minutes (but not for six." Two years after "the speech," frustration with the government) and increasingly with the political class - remains high. The atmosphere, admits Finance Minister Veres, is "highly anti-reform," and many of our contacts share the impression that various disparate grievances are metastasizing in the absence of clear, credible, and consensual leadership. That will certainly continue to limit the attention Hungary will pay to foreign affairs. It may also increase the attention we must pay to Hungary.

END COMMENT.
Foley